SAPPORO HOLDINGS LTD.

Sapporo Holdings Limited

Q2 Financial Results Briefing for the Fiscal Year Ending December 2023

August 10, 2023

Event Summary

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[Number of Speakers]	3

	Masaki Oga	President and Representative Director
	Yoshitada Matsude	Managing Director
	Hiroyuki Nose	President and Representative Director, Sapporo Breweries Limited
[Analyst Names]	Hiroshi Saji	Mizuho Securities
	Manabu Sumoge	Okasan Securities
	Ami Yoshida	JPMorgan Securities
	Satoshi Fujiwara	Nomura Securities

Presentation

Moderator: Hello. Thank you for attending today's financial results briefing for Q2 of FY2023 of Sapporo Holdings Limited. In attendance today are Mr. Masaki Oga, President and Representative Director of Sapporo Holdings Limited, Mr. Yoshitada Matsude, Managing Director of Sapporo Holdings Limited, and Mr. Hiroyuki Nose, President and Representative Director of Sapporo Breweries, Limited.

Please have at hand the financial results, supplementary information to the financial results, and financial results presentation material. Mr. Oga and Mr. Matsude will provide an overview of the financial results for approximately 30 minutes based on the PowerPoint presentation material, followed by a Q&A session. The entire meeting will last approximately 1.5 hours.

Mr. Oga will now begin the explanation.

Summary

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Business results: increased revenue and improving core operating profit

(billions of yen)	2022 Q2 Result	2023 Q2 Result	YoY changes (amount)	YoY changes (%)
Revenue	213.8	238.5	24.7	11.6%
Core operating profit	(2.2)	3.5	5.7	—
Operating profit	(0.2)	(2.8)	(2.6)	—
Profit attributable to owners of parent	(0.4)	(5.1)	(4.7)	—

- Revenue and core operating profit increased
- Operating profit and profit for the period decreased
  (impact of one-off costs for the dissolution of Anchor)
- Price revisions are steadily absorbing higher costs such as surging raw material costs, etc.
- Progressing steadily according to forecasts

Main topics

- Alcoholic Beverages recover in sales volume of commercial-use products, while Restaurants posted steady same-store sales
- Canned Black Label performed better than last year (Market total demand for canned beer down 6%)
  RTD was a growth driver, with strong sales for the new product "Shin Lemon Sour," in addition to core brands
- Sapporo brand continues to see strong sales overseas
- The effect of structural reforms in the Restaurants and Food & Soft Drinks businesses implemented since the pandemic are contributing steadily to bottom line

3/34

Oga: Good evening. I am Oga of Sapporo Holdings. Thank you for your time today.

Now, I would like to explain the summary.

For the period under review, revenue was JPY238.5 billion, an increase of JPY24.7 billion from the previous year, and core operating profit was JPY3.5 billion, an increase of JPY5.7 billion. Operating profit was negative JPY2.8 billion and profit attributable to owners of parent was negative JPY5.1 billion, for declines from the previous year. We consider this to be a one-time cost impact, due to the loss incurred in connection with the dissolution of Anchor Brewing Company, LLC, which was recently resolved to be dissolved.

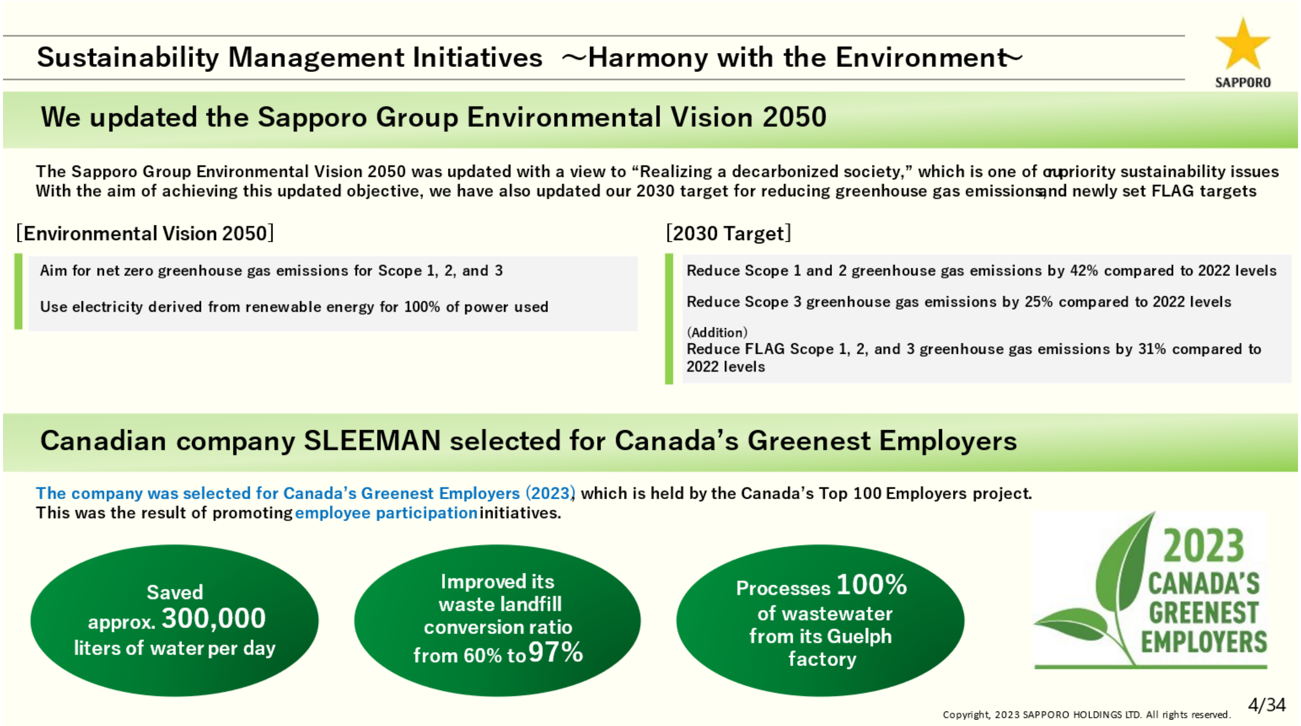
We are steadily absorbing cost increases in raw materials and other items through price revisions, and with the recovery of the business itself, we believe that our performance is progressing steadily and above plan.

The first major topic is the steady recovery in sales volume of commercial-use products in the alcoholic beverages business and sales at existing restaurants in the restaurant business.

This means that sales for commercial use are increasing. In fact, total demand for beer cans is decreasing, but results for canned Black Label continue to exceed those of the previous year. In RTD products, in addition to the core brands, new Shin Lemon Sour performed well, driving growth.

In addition, the trend of strong sales of the Sapporo brand overseas continued.

Furthermore, we believe that the effects of the structural reforms in the restaurant business and the food and Soft drinks business, which we have been implementing since the time of the COVID-19 pandemic, are steadily contributing to profits.



Here you see our sustainability management initiatives, which are set forth in our medium-term management plan. I would like to introduce two major initiatives that have made progress.

The Sapporo Group Environmental Vision 2050, set for 2019, updates the greenhouse gas emissions reduction targets.

Once the 2022 results were finalized last year, we updated our 2030 targets to higher goals that meet SBT's certification criteria. Scope 1 and 2 are targeted at a 42% reduction from the 2022 level, and Scope 3 is targeted at a 25% reduction from the 2022 level.

In addition, the FLAG scope, which covers gas emissions from forest, land, and agriculture to the farm gate of the so-called land-intensive portion of the food sector, has been updated to a major target of a 31% reduction from 2022 levels.

In addition, Sleeman Breweries of Canada was selected as one of the 100 most environmentally conscious companies. As a result of promoting initiatives with employee participation, this company was selected as one of Canada's Greenest Employers 2023.

Sustainability Management Initiatives ～Sustainability Targets～

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Black text indicates results and blue text indicates targets

Classification	Material Issues	Specific Initiatives	Targets Setting Companies	Target Year	Targets	2021	2022	2026	2030	2050
Harmony with the Environment	Realization of a decarbonized society	Reducing CO2 emissions at company sites and supply chains	Scope1, 2 Common to all operating companies	2050	Scope 1, 2, 3 Net Zero greenhouse gas emissions	(Scope1,2)				
				2030	Scope 1, 2 greenhouse gas emissions by 42% compared to 2022 levels	184.1 Kt	189.3 Kt	149.6 Kt	109.8 Kt	0
			Scope3 Common to all operating companies (SB,PS,SBL※) ※Accounts for more than two-thirds of the emissions of the entire Sapporo Group			(Scope3)				
					Scope 3 greenhouse gas emissions by 25% compared to 2022 levels	903.3 Kt	1,082.6 Kt	947.3 Kt	812.0 Kt	0
						(FLAG Scope1,2,3)				
					FLAG Scope 1, 2, 3 greenhouse gas emissions by 31% compared to 2022 levels	-	101.8 Kt	86.0 Kt	70.2 Kt	
Co-prosperity with Society	Mutual prosperity with local communities	・Improvement of regional value ・Resolution of local issues using company resources	SRE		Progress in sustainable urban development that contributes to improving area brand value	-	-			
			SB		Progress of our "regional revitalization business"	-	-			
			PS		Progress in building an environment for lemon production in Japan	-	-			
			PS, SGF	2030	Number of regional learning programs (food education, on-site classes, factory tours, etc.) related to the food and beverage business	-	131		140	
Activation of Human Resources and Potentials	Active participation of diverse human resources	Promotion of Diversity & Inclusion (D&I)	SH, SB, PS, SRE, SLN	2026	Work engagement (*1) 54 or higher	53.9	53.6	54		
			SH, SB, PS, SRE, SLN	2026 ~ 2030	At least 12% female executives and at least 20% female executives	-	8.3%	12%	20%	
			SH, SB, PS, SRE, SLN		At least 12% female managers and at least 20% female managers	4.2%	5.4%	12%	20%	
		Investing in human capital for growth and productivity	SH, SB, PS, SRE, SLN	2026	Integrated survey "Challenges for future value creation" (*2) 3.0 or higher	2.6	2.7	3.0		
			SH, SB, PS, SRE, SLN	2026	Presenteeism loss rate (*3) 33.4% or less	36.3	34.4	33.4		

*1 Indicators in Stress Check and Employee Awareness Survey <Deviation>

*2 Sapporo Group's proprietary survey indicators in Stress Check and Employee Awareness Survey <quantified using 1.0 to

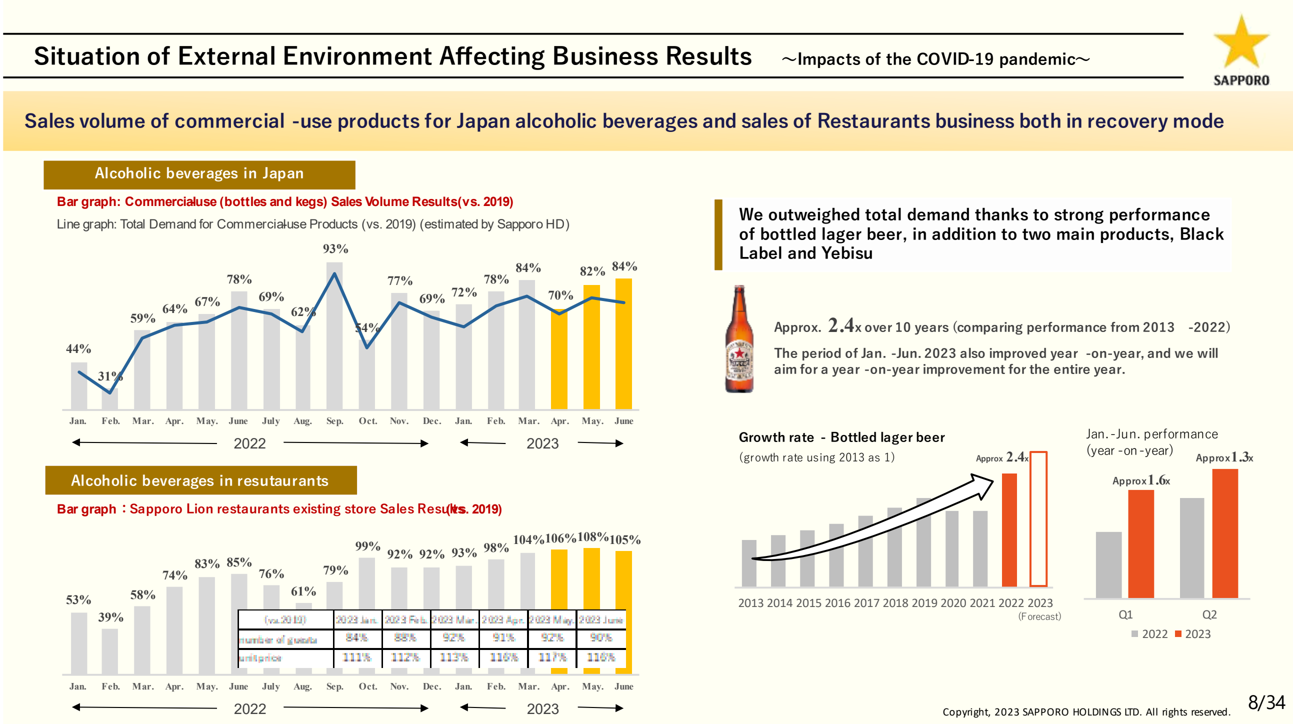
*3 Indicators in Stress Check and Employee Awareness Survey : average for SH and four operating companies

This table lists the sustainability goals that have already been announced, the newly established goals, and last year's results. See later.

That is all for my presentation.

Moderator: Thank you for your explanation. Mr. Matsude will now make an explanation.

Matsude: I would like to add some additional information. As for core operating profit and other profits, a loss from the dissolution of Anchor Brewing Company of JPY5.3 billion was posted for the quarter under review. In addition, the decrease in profits was partly due to the absence of other operating revenues such as gains on sales of real estate in the previous year.



I would like to continue by explaining the external environment that affects our business performance. First, regarding the impact of the new COVID-19.

This bar graph shows the monthly sales volume of beer for commercial use in the domestic alcoholic beverages business and the degree of recovery in existing store sales of Sapporo Lion Inc. compared to 2019.

Since March of last year, our performance has been on a recovery track, and you can see that it has been recovering steadily since January of this year. Regarding the sales volume of commercial use in the domestic alcoholic beverages business, we have recovered to just under 80% compared to 2019 for the period from January to June of this year.

Total demand is shown in the blue line graph. Total demand is believed to have recovered to about 70%. One factor contributing to this outperformance is the strong sales of the bottled type of Sapporo Lager beer, which we commonly refer to as Akaboshi.

In addition, the restaurant business, Sapporo Lion's same-store sales recovered to pre-COVID-19 levels in January to June, at 103% compared to 2019. The number of visitors and the price per customer are also shown in comparison to 2019. The number of visitors recovered by about 90%, and although it has not yet completely returned, the average spend per customer covered this.

Situation of External Environment Affecting Business Results ~Higher costs such as surging raw material costs~

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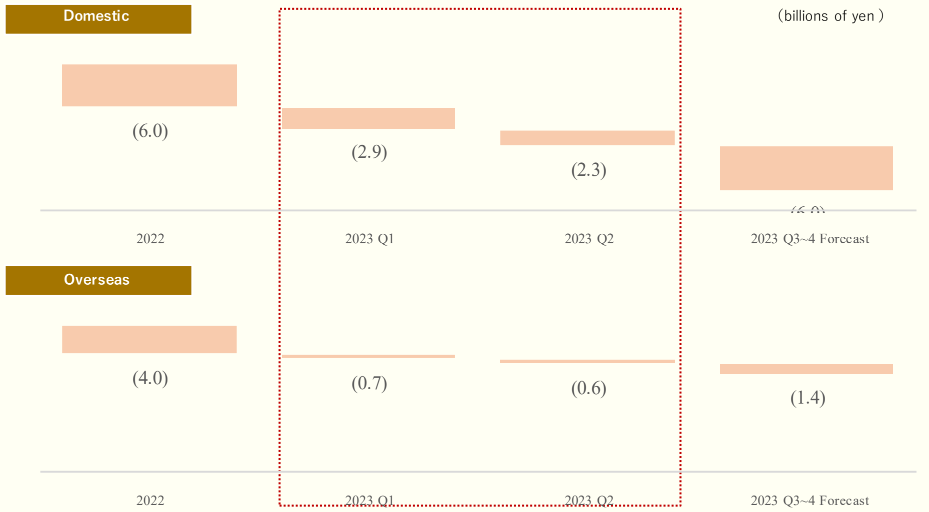
Costs are expected to increase by ¥14.0 billion vs. 2022 and ¥1.5 billion vs. the initial forecast, but price revisions will address the situation.
We will respond appropriately to the risk of additional cost increases by closely monitoring the situation.



Next, I would like to explain cost increases due to soaring raw material prices and other factors.

This year, we expect a cost increase of JPY14 billion over the previous year. This is an increase of JPY1.5 billion from the announcement at the beginning of the year. The JPY14 billion includes JPY11 billion in Japan and JPY3 billion overseas.

In H1, costs increased by JPY6.5 billion. We will basically respond to these with price revisions. We will continue to monitor the situation closely and take measures.

Financial Highlights

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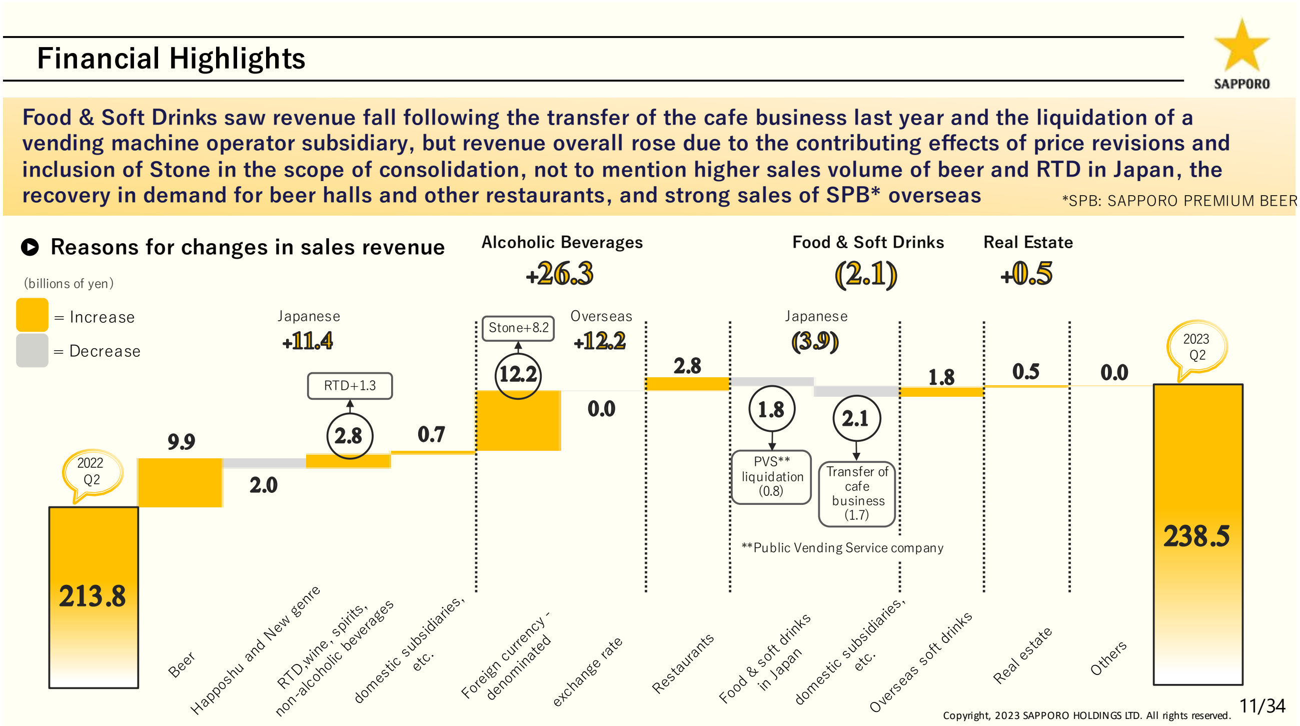
(billions of yen)	2022 Q2 Result	2023 Q2 Result	YoY changes (amount)	YoY changes (%)
Revenue by Segment	**213.8**	**238.5**	**24.7**	**11.6%**
Alcoholic Beverages	146.1	172.5	26.3	18.0%
Japanese	109.7	121.1	11.4	10.4%
Overseas	30.0	42.2	12.2	40.6%
Restaurants	6.4	9.2	2.8	42.7%
Food & Soft Drinks	57.5	55.4	(2.1)	(3.6%)
Japanese	46.3	42.4	(3.9)	(8.4%)
Overseas	11.2	13.0	1.8	15.9%
Real Estate	10.1	10.6	0.5	4.9%
Other	0.1	0.1	0.0	8.3%

(billions of yen)	2022 Q2 Result	2023 Q2 Result	YoY changes (amount)	YoY changes (%)
Core Operating Profit by Segment	**(2.2)**	**3.5**	**5.7**	―
Alcoholic Beverages	(0.5)	5.0	5.5	―
Japanese	0.1	4.5	4.4	3159.9%
Overseas	0.2	(0.3)	(0.5)	―
Restaurants	(0.9)	0.8	1.7	―
Food & Soft Drinks	(0.8)	0.5	1.3	―
Japanese	(1.5)	(0.2)	1.3	―
Overseas	0.7	0.7	0.0	1.1%
Real Estate	2.6	1.9	(0.6)	―
Other・General corporate and intercompany eliminations	(3.5)	(3.9)	(0.4)	―

Next, I will explain the breakdown by segment.

First, look at the sales revenue on the left side. The increase in sales revenue was largely driven by a JPY26.3 billion increase in the alcoholic beverages business. Revenues from food and soft drinks operations and real estate were essentially unchanged from the previous year.

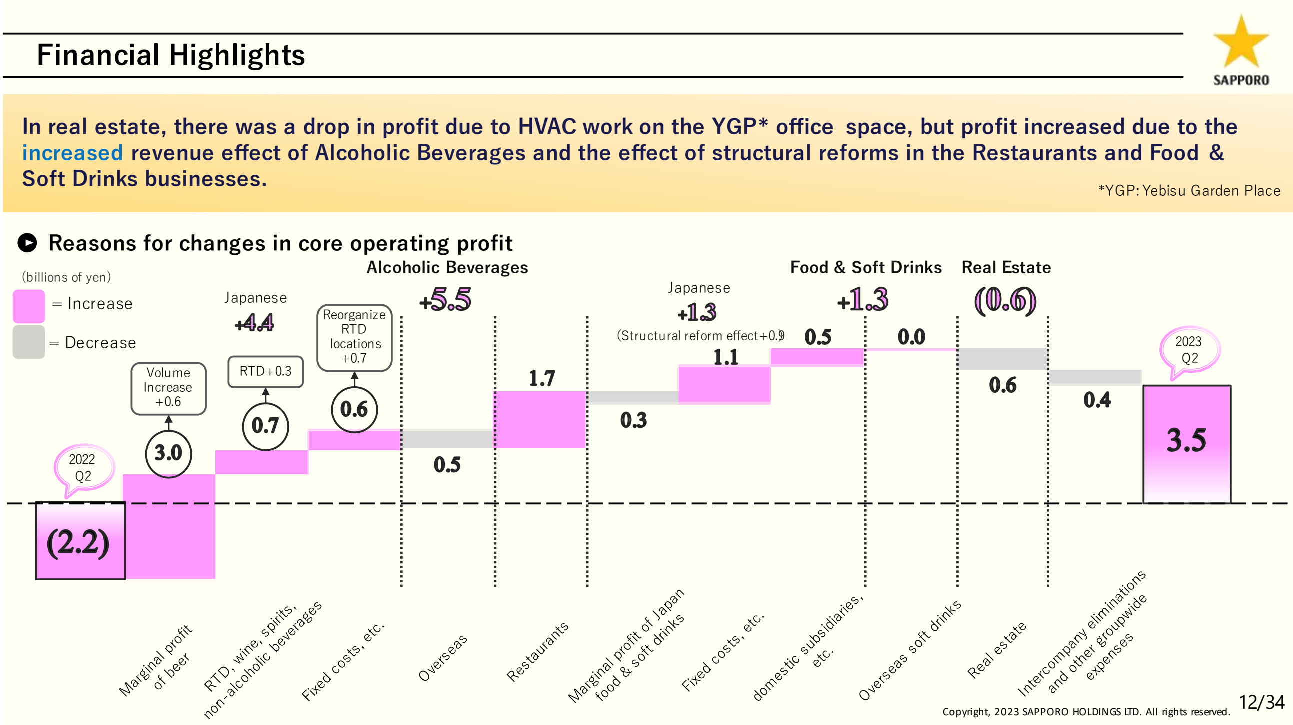
See core operating profit on the right. The increase in profit was largely driven by a JPY4.4 billion increase in profit from the domestic alcoholic beverages business within the alcoholic beverages segment. In addition, the restaurant business and the domestic food and soft drinks business contributed to an increase of JPY1.7 billion and JPY1.3 billion, respectively.



Next, I would like to explain the main factors behind the increase in revenue and profit.

Revenues totaled JPY238.5 billion, up JPY24.7 billion, or 12%, from the previous year. I will explain this by segment. Only the food and soft drinks segment had lower revenue. This was mainly due to the sale of the café business and the liquidation of a vending machine subsidiary last year, which had a negative impact of JPY2.5 billion.

On the other hand, the domestic and overseas alcoholic beverages businesses were the main drivers of revenue growth. In the domestic alcoholic beverages business, sales increased by JPY11.4 billion due to higher beer and RTD volumes and the effect of price revisions. The overseas alcoholic beverages business reported an increase of JPY12.2 billion in sales, due to the contribution of JPY8.2 billion from the consolidation effect of Stone Brewing Holdings, LLC, in addition to the strong performance of the Sapporo brand.



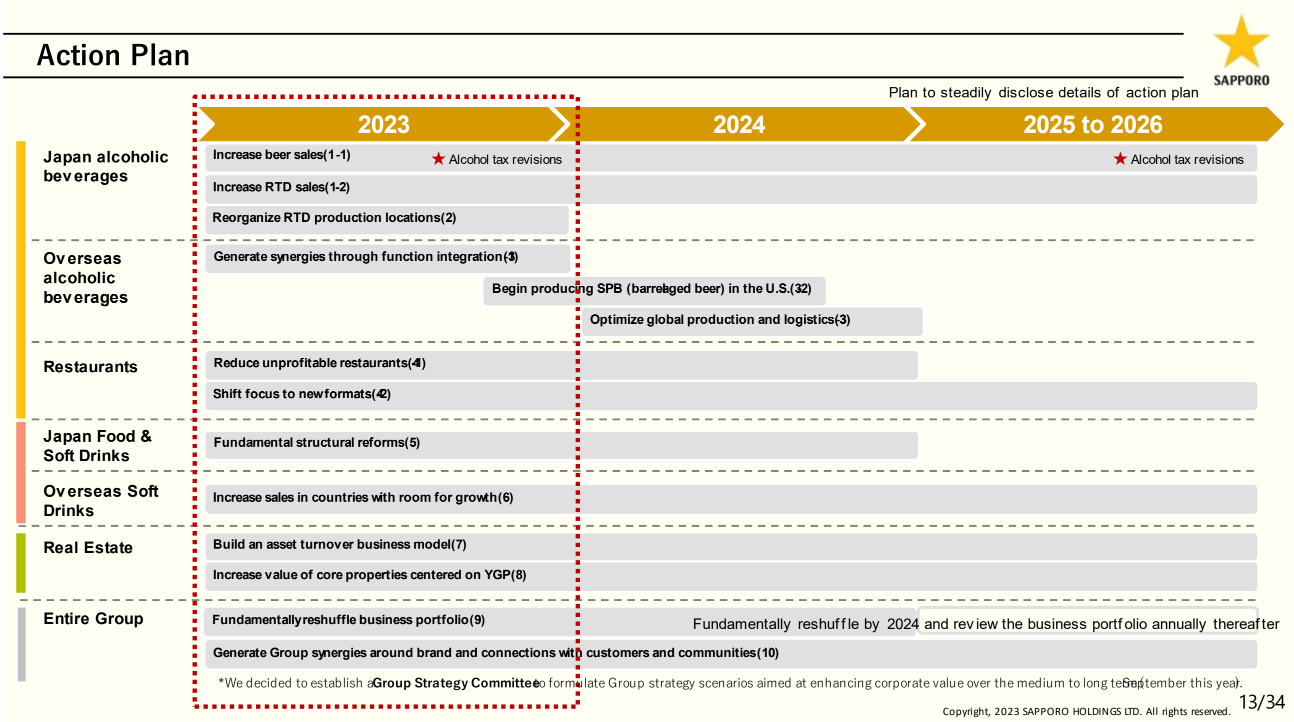
I`d like to move on to core operating profit.

Core operating profit was JPY3.5 billion, an increase of JPY5.7 billion. The domestic alcoholic beverages business was a major driver, and in addition, the restaurant and domestic food and soft drinks businesses contributed to the increase in profit.

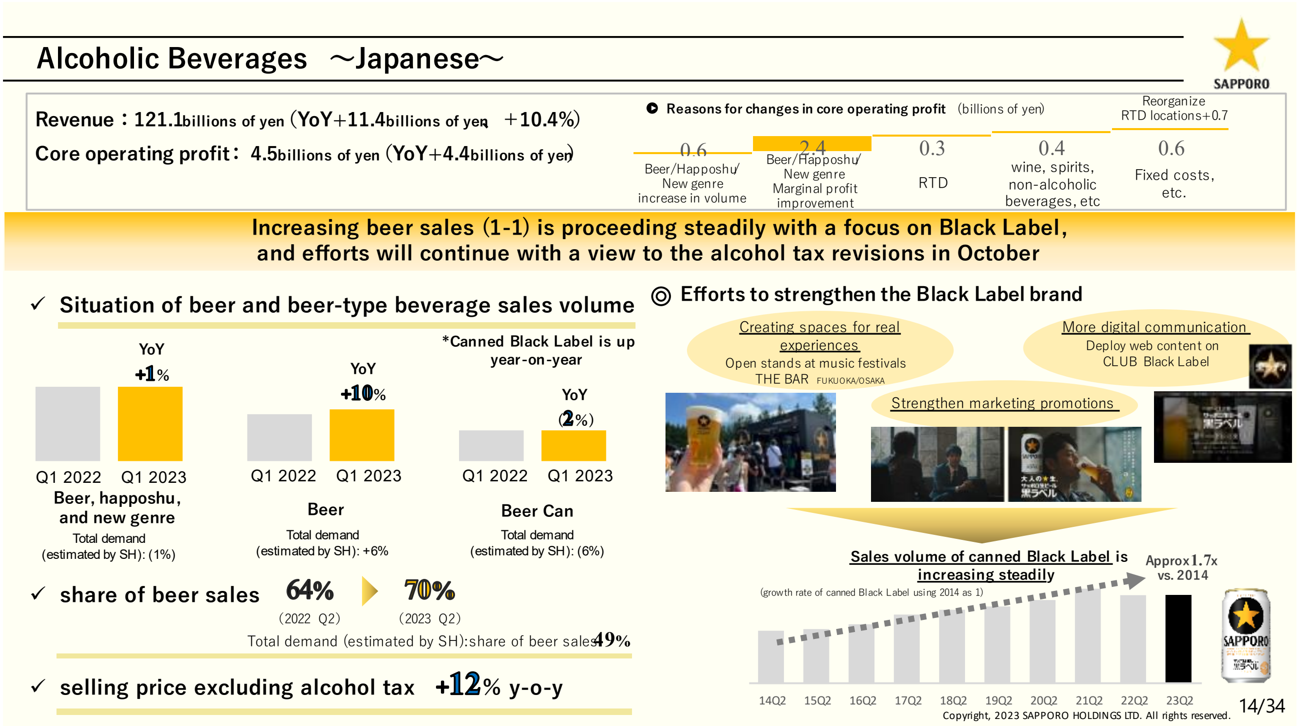
In the domestic alcoholic beverages business, in addition to the effect of increased sales of beer and RTD, control of fixed costs contributed to increased profits.

In the restaurant business, there was an increase of JPY1.7 billion due to the effect of structural reforms, supported by increased revenue. The domestic food and soft drinks business improved by JPY1.3 billion, while structural reform effects such as SKU reduction and liquidation of a vending machine subsidiary contributed JPY0.9 billion. Thus, we were able to make steady progress in improving profitability.

These are the financial results for Q2 of FY2023.



Next, I would like to explain the progress of the action plan along with the financial results by segment.



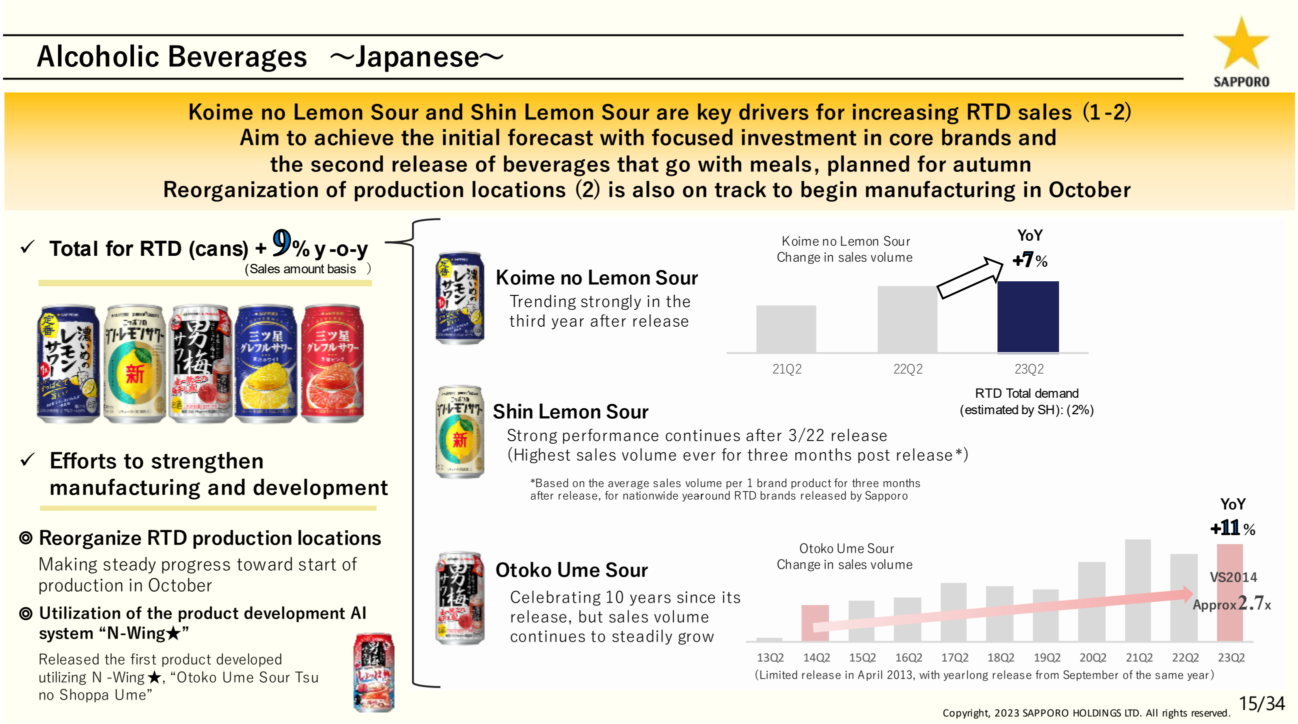
The first is the domestic alcoholic beverages business.

In the domestic alcoholic beverages business, revenue increased by JPY11.4 billion and core operating profit increased by JPY4.4 billion. Strengthening of beer and RTD and control of fixed costs contributed to the increase.

In the beer category, the market for beer is expected to grow, and we are making steady progress in our efforts to strengthen our beer lineup, centered on Black Label. We intend to further strengthen our efforts in preparation for the liquor tax revision in October.

I would like to explain the sales volume of beer-type beverages and beers. Our beer-type beverages sales volume increased 1% from the previous year. Total demand is down 1%. The increase was driven by beer. Beer sales volume increased 10% from the previous year. Total demand increased by 6%. While there were environmental factors such as a recovery in commercial use, canned beer for home use remained strong while demand shifted to commercial use. As for the sales volume of canned beer, we were able to keep the decline at 2% while total demand decreased 6%. Sales volume of canned Black Label exceeded the previous year.

As a result, the percentage of beer in the beer-type beverage category has 70%, which is more progress than in Q2 of last year. This is well above the 49% of the overall market.

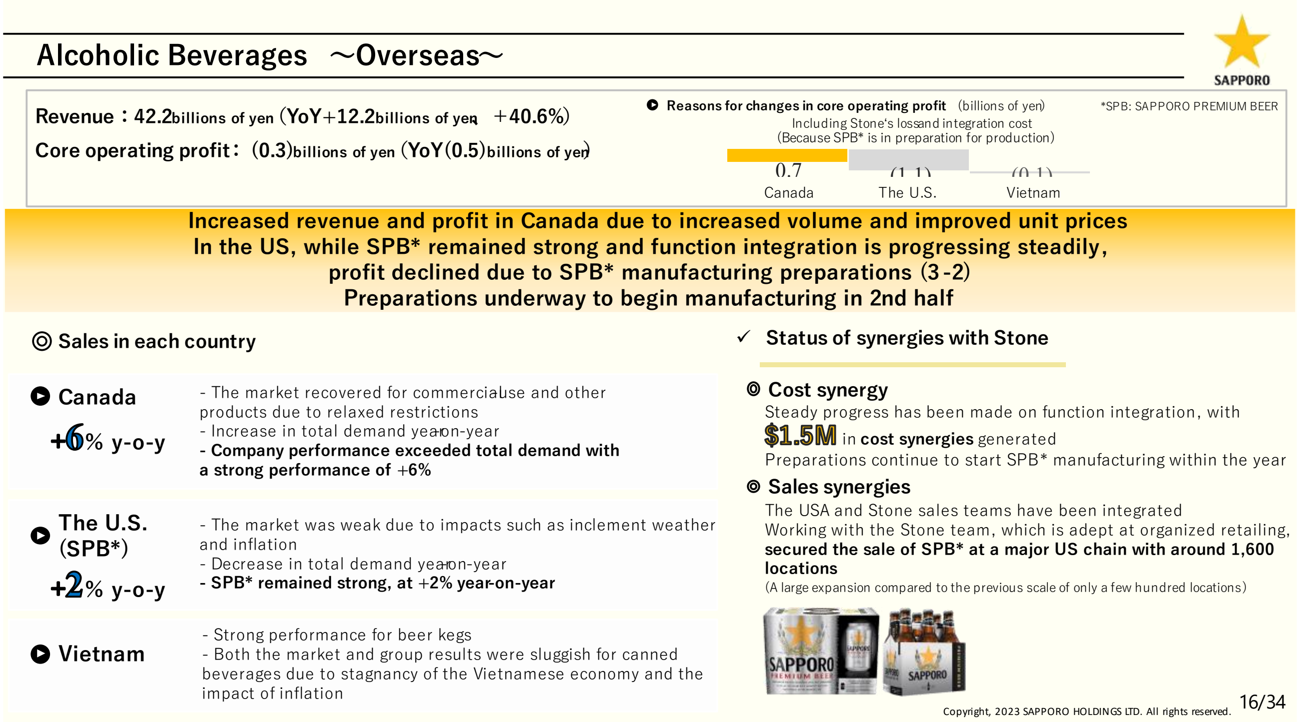


Next is RTD.

RTD is also making steady progress. Sales amount increased 9% from the previous year. Our core brand, Koime no Lemon Sour, performed well with a 7% increase, and our new product, Shin Lemon Sour, also progressed well.

In H2 of the year, we intend to further accelerate growth through focused investment in core brands and new products planned for the fall.

I would also like to add that the suspension of beer production at the Sendai brewery and the reorganization of RTD production bases are progressing smoothly.



Next is the overseas alcoholic beverages business.

In the overseas alcoholic beverages business, revenue increased by JPY12.2 billion and core operating profit deteriorated by JPY0.5 billion.

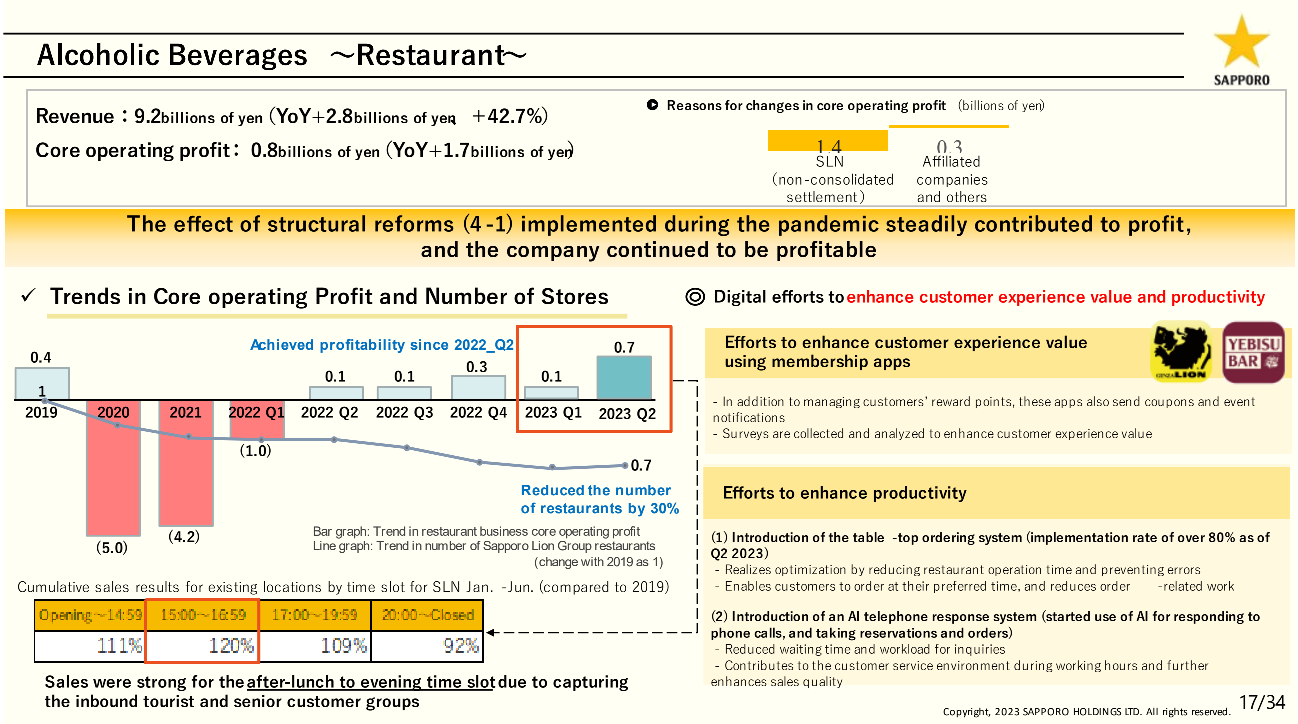
I would like to discuss the situation by country. In Canada, profit increased by JPY0.7 billion due to an increase in volume and improved unit prices. Meanwhile, in the US, SAPPORO PREMIUM BEER continues to perform well, and the functional integration with Stone, which was acquired last year, is progressing well. However, local production of SAPPORO PREMIUM BEER is still under preparation at this time, and integration costs and other factors resulted in a JPY1.1 billion decrease in profit for Q2 of FY2023.

I would like to report on sales by country. First, in Canada, total demand increased by 2% to 3% due to the recovery of the commercial market. Our results were favorable, with a 6% increase.

In the US, the market itself was lower than the previous year due to unfavorable weather, especially on the West Coast, and inflation across the country. Against this backdrop, SAPPORO PREMIUM BEER performed well, increasing 2%.

Next, I will explain the status of synergies with Stone. First, cost synergies. We were able to create cost synergies of about JPY200 million in H1. The integration of sales and marketing functions has been very effective.

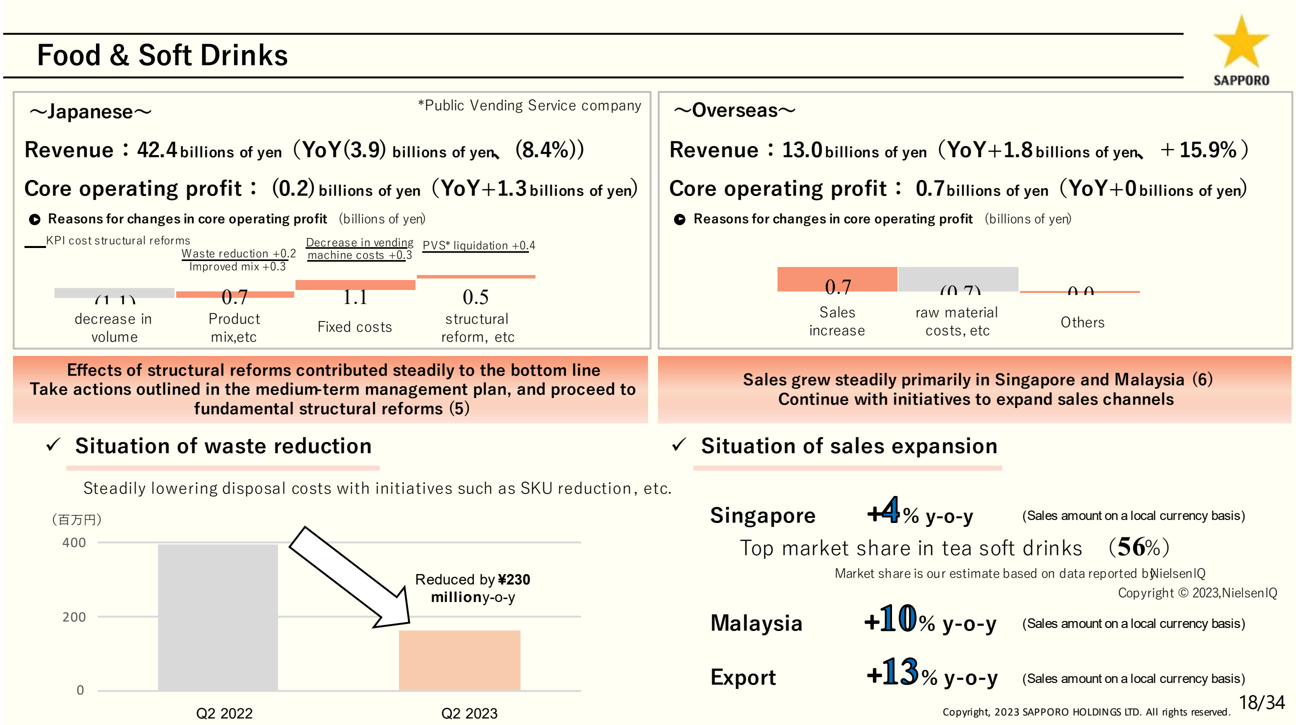
In terms of sales synergies, we worked with Stone's sales team, which is strong in organized retail, to secure the adoption of SAPPORO PREMIUM BEER by a major chain with 1,600 stores. We expect to see the effects of this sales expansion in the future. We will continue our efforts toward further functional integration and the start of production of SAPPORO PREMIUM BEER in H2 of the fiscal year.



Next is the Restaurant business.

In the restaurant business, revenue increased JPY2.8 billion and core operating profit improved JPY1.7 billion. The increase in revenue was 42.7%, an increase by a factor of 1.4. We have been working since the COVID-19 pandemic to reduce unprofitable stores by approximately 30% compared to 2019, and have been able to achieve profitability in each quarter since Q2 of last year.

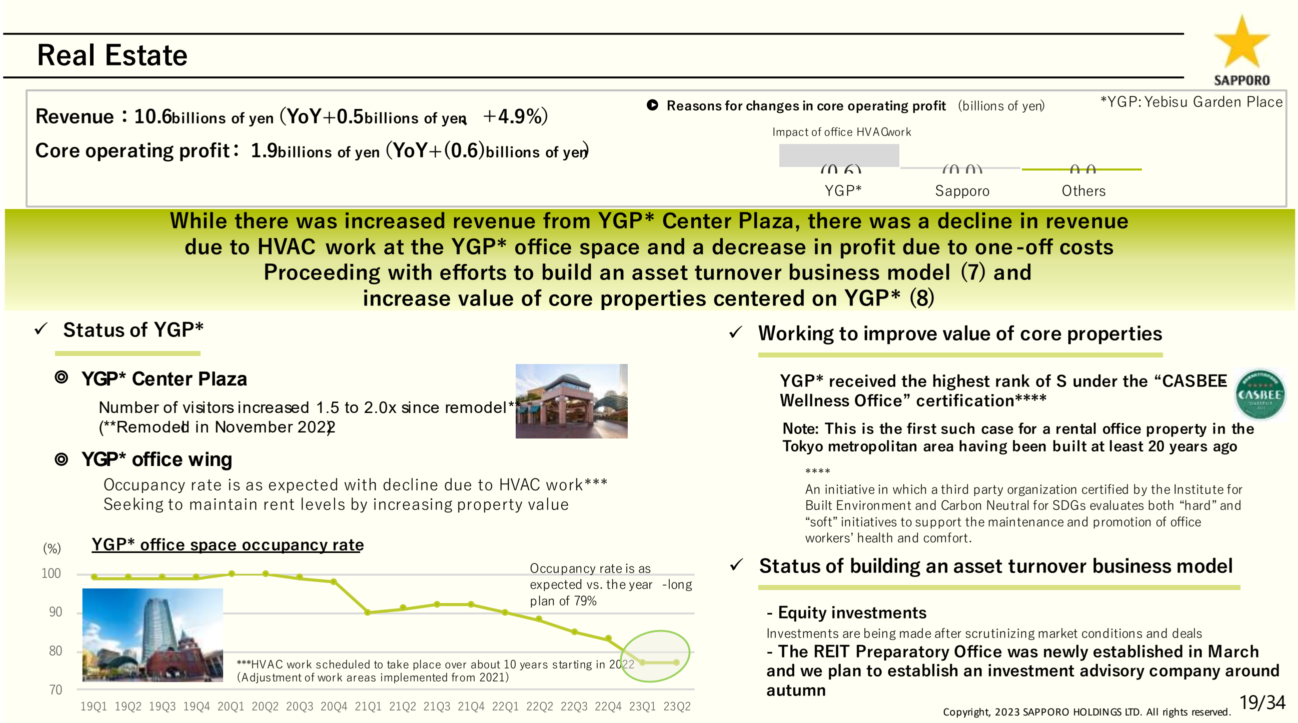
Sales by time zone are shown. This is compared to 2019. Although the number of customers during the late hours is still lower than before the pandemic, we were able to capture customers during the afternoon and evening hours. We believe that the acquisition of inbound tourists and senior citizens are contributing to this.



Next is the domestic food and soft drinks business.

This business saw a JPY3.9 billion decrease in revenue and a JPY1.3 billion improvement in core operating profit. Revenue decreased due to the impact of structural reforms. However, core operating profit benefited from structural reforms that include reduced disposal, reduced vending machine costs, and liquidation of unprofitable subsidiary, amounting to JPY900 million, in addition to an improved product mix, which enabled us to make steady progress in improving profitability. We will continue to steadily implement structural reforms to improve profits.

In the overseas soft drinks business, sales revenue increased by JPY1.8 billion and core operating profit was almost the same level as the previous year. As for sales expansion, sales in Singapore increased 4%, sales in Malaysia increased 10%, and exports grew steadily by 13%. We intend to continue our efforts to expand sales channels.



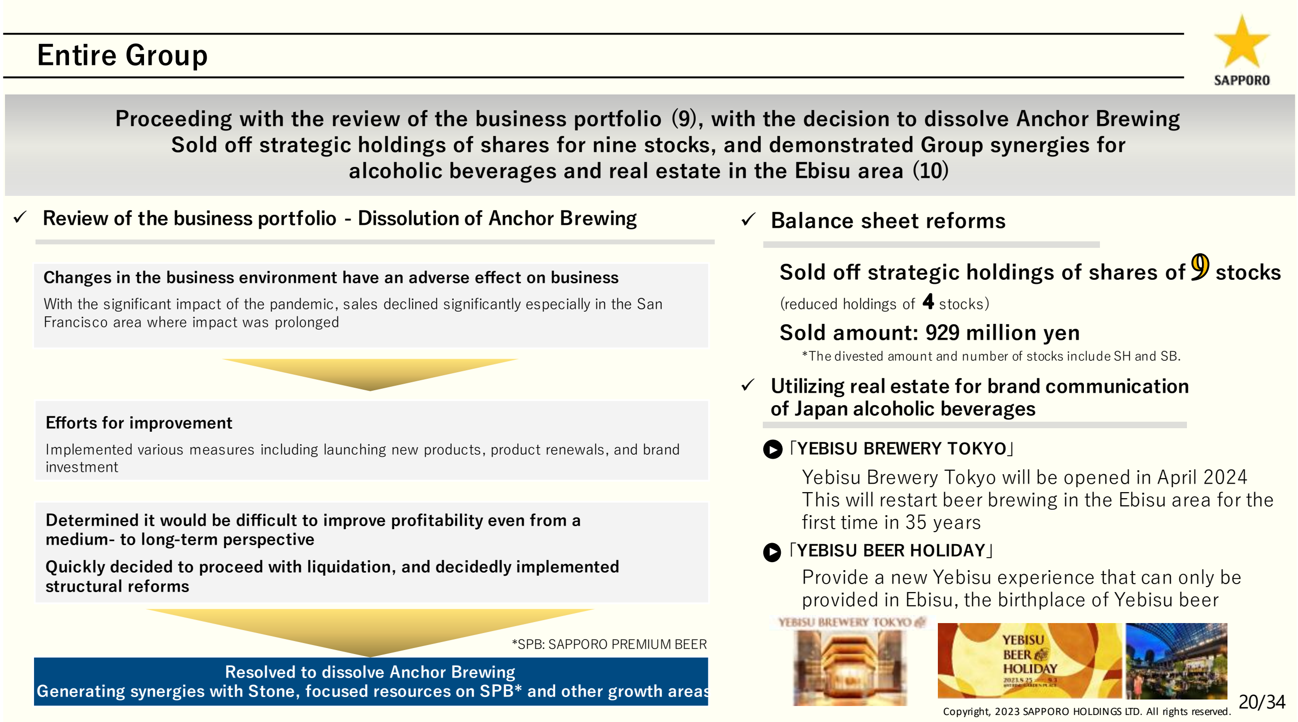
Next , let`s move on to the real estate business.

In this business, revenue increased JPY0.5 billion and core operating profit decreased JPY0.6 billion. Revenue increased due to the effect of the renovation of Yebisu Garden Place Center Plaza. However, core operating profit decreased due to lower occupancy rates and higher costs associated with the previously announced office air conditioning work at Garden Place. We intend to further continue our efforts to enhance the value of our core properties, particularly Yebisu Garden Place.

I would like to add a few words about the office situation at Yebisu Garden Place. The office occupancy rate for January to June was 77% due to air conditioning work. This is an 11% decrease from the previous year’s 88% occupancy rate. Most of this is due to the impact of the HVAC work, and the occupancy rate excluding the HVAC-affected zone is around 90%.

The current occupancy rate is 77%, but some have already signed contracts and are scheduled to move in. The occupancy rate is expected to recover by about 10% toward the end of the year. In addition, the unit rent increased slightly compared to the end of 2021 before the HVAC work.

In addition, Yebisu Garden Place received an S rank in the CASBEE Wellness Office Evaluation Certification, as described here. This is the first case for an office property in Tokyo built over 20 years ago. We intend to maintain and improve profitability by improving safety and comfort, enhancing the functionality as a town and information dissemination, and further strengthening leasing.



Next is the status of Entire Group strategy promotion.

As part of a review of our business portfolio, we decided on July 12 to dissolve Anchor Brewing. Losses associated with the dissolution are expected to be JPY6 billion. Of this amount, JPY5.3 billion was recorded in Q2. The loss of JPY6 billion is within the scope of the assumptions made in our plan at the beginning of the year. Anchor Brewing had been incurring an annual deficit of nearly 1 billion yen. However, I am pleased to report that as of this July, we have almost completed our bleeding stop as of this past July.

Next is balance sheet reform. In addition to reviewing its business portfolio, the Company is selling strategic holdings of shares. In H1 of the year, we sold JPY0.9 billion of strategic holdings of shares. We intend to continue our efforts in H2 of the fiscal year.

YEBISU BREWERY TOKYO is scheduled to open at Yebisu Garden Place in April of next year. We would like to firmly transmit the brand value of Yebisu Beer from Yebisu Garden Place.

YEBISU BEER HOLIDAY will also be held as last year. The event will be held from August 25 to September 3 at the center square of Yebisu Garden Place.

Action Plan KPI

※1Forex assumption: ¥130
※2 Local currency basis (Singapore dollar)
＊ to be disclosed in Q2 or fiscal year end financial results

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		Q2results		Full year		medium-term plan Target
		2022 Q2	2023 Q2	2022	2023Plan	
Japan alcoholic beverages	**Reinforcement of Beer / Improving Profitability of Beer-type Bev.**					
	Increase beer sales: share of beer sales(1-1)	64%	**70%**	68%	71%	79%
	Improve profit margin: selling price excluding alcohol tax (1-1)	-	**+12% (y-o-y)**	-	+9% (y-o-y)	+11% (VS 2022)
	RTD Business Growth and Production Streamlining, Etc.					
	RTD growth: RTD sales amount(1-2)	-	**+9% (y-o-y)**	-	+23% (y-o-y)	+74% (VS 2022)
	Increase production efficiency: ratio of in-house production(2)	69%	**62%**	73%	64%	88%
Overseas alcoholic beverages	**Stone Acquisition Synergy / SPB Growth**					
	Sapporo brand volume (3-1~3)	3.23million cases	**3.49million cases** (y-o-y +8%)	6.61million cases	7.47million cases	10.0million cases
	Cost synergy (3-1~3) ※1	-	**$1.5M**	-	$4M	$23M
Japan food & soft drinks	**Cost Structure Reforms** (5)	-	**¥0.5billion**	-	¥1.0billion	¥2.0billion
Overseas soft drinks	**Expanding Sales and Increasing Logistics Efficiency** Overseas sales amount(6) ※2	-	**+5.1% (y-o-y)**	-	+3% (y-o-y)	+30% (VS 2022)
Real Estate	**Revenue Structure Diversification** Asset share of securitization business(7)	-	＊	3.7%	7.2%	19.2%
	Increase value of YGP** **YGP: Yebisu Garden Place Rate of increase in average rent price(8)	-	＊	-	+0.4% (y-o-y)	+2.5% (VS 2022)
Entire Group	**Drastic Reorganization of Unprofitable Businesses, Etc.** (9) PVS*** liquidation effect +400 million yen The effect from Anchor is expected to be felt from Q3	-	**¥0.4billion**	¥1.0billion (y-o-y)	¥0.5billion (y-o-y)	-

***Public Vending Service company

 21/34

Finally, here is the status of the KPIs in the action plan.

The area circled by the red dotted line is the status in Q2 of FY2023. Overall, the progress has been favorable. As for RTD growth, we had a fairly large plan at the beginning of the year of a 23% increase, and there is a bit of a large gap with the current situation. However, we intend to achieve this goal firmly by strengthening our core brand in H2 of the year and through new products in the fall.

For the real estate business, we plan to disclose annual figures because it does not fit the management of short-term market conditions.

The effects of Anchor are described in “Drastic Reorganization of unprofitable businesses,Etc” under “entire group.” This effect is expected to manifest from Q3.

Thus, we ended H1 of this year smoothly, especially for domestic alcoholic beverages. We hope to receive your continued support.

This concludes my explanation. Thank you for your attention.

Moderator: Thank you for your explanation.

Question & Answer

Moderator [M]: We will now begin the question-and-answer session. Please ask one question at a time. Also, in order to answer questions from many people, we will limit each person to two questions. First, Mr. Saji of Mizuho Securities, please ask your question.

Saji [Q]: Thank you very much. One thing I would like to ask is about the domestic beer business. I know that commercial beer is doing well due to the recovery of the commercial market, and that existing restaurants are improving very well in the restaurant business. Canned Black Label for home use is doing very well, and I think this is one of the main reasons for the outperformance. I would like to know the background behind this.

Also, am I correct in assuming that the beer category will basically continue to improve after the October liquor tax revision? In particular, please tell us if beer, which has a very high percentage of the composition, will continue to show relative strength.

Nose [A]: I, Nose, will answer your question. As for the performance of Black Label brand, it continues to be strong. Not only this year, but also last year, I believe that we had an advantage in the competition with our competitors. While the condition of the brand itself is relatively healthy, we believe there is considerable room for our company to grow.

Compared to competing brands, our products have not yet covered all of our Japanese customers, including convenience stores, supermarkets, and drugstores. This coverage rate can be brought closer to 100% in the future. Because of this situation, I believe we have a competitive edge in the canned beer market.

Canned beer has become a center of competition among domestic beer companies. I think it is important how to fight in this situation. We have been working solidly to strengthen our beer offerings for the past five or six years, but assuming further market expansion, we believe there is still room for expansion.

We hope to see a further growth, as six-can packs will become even easier to buy if store prices drop by the tax amount in October. Conversely, we are aware that we have not yet invested enough in Black Label, especially Yebisu. Recognizing that this is an opportunity, we would like to make a firm commitment, including brand investment.

Saji [Q]: Thank you very much. Let me just confirm one point. In H1 of the year, other companies launched cheaper beer and temporarily increased sales. Am I correct in understanding that the brand concept and packaging are basically different, so there was very little impact on Black Label?

Nose [A]: There was an instantaneous impact. But in terms of what we are trying to do, premiumization of beer and storytelling of beer, the so-called brand concept is completely different. Although the temporary impact is not zero, we believe this strategy makes more sense from a long-term perspective.

As for Black Label, we are holding hands-on events in Osaka and Fukuoka this year. Also, as usual, Black Label THE BAR in Ginza continues to do well, with sales in June exceeding pre-COVID-19 sales. We really have a lot of young people coming. Considering the state of the brand, we recognize that our products, although comparatively more expensive, can compete well.

Saji [Q]: Thank you very much. Second, you have left your full-year earnings guidance for H2 unchanged. I would like to know about the company-wide performance assumptions. Core operating profit increased by JPY5.7 billion in H1. Since the full-year forecast was left unchanged, you are planning a profit decline of about JPY1.5 billion in H2 of the year.

I feel that the environment for your company is not bad since there is temporary demand due to the October liquor tax revision and beer will receive a tax cut. I would like to know the background behind the fact that you are leaving the earnings guidance unchanged, including core operating profit, and the negative factors that may affect the profit decline of about JPY1.5 billion in H2 of the year.

Matsude [A]: Thank you for your question. Mr. Oga mentioned at the beginning of the meeting that we are on a positive track compared to the Company's plan. I hope you will understand that we have ventured to leave the annual forecast unchanged for the reason that we want to take a cautious look at it. Since the current business situation is not bad, we intend to make an upward revision at some point in the future, if necessary.

As for negative factors, we expect a slight impact of high cost of sales, again presented as an increase of JPY1 billion. However, we feel the strength of the business counteracts this.

Saji [Q]: Thank you very much. So, you are planning carefully, but basically the only risk of a decrease in profit is a higher cost of goods?

Matsude [A]: I can't say for sure what the top line will be since it is a seasonal business, but I hope you understand that it is mostly steady.

Saji [M]: Understood. Thank you very much.

Moderator [M]: Thank you very much. We will now move on to the next question. Mr. Sumoge of Okasan Securities, please.

Sumoge [Q]: I am Sumoge of Okasan Securities. Thank you. I would like to ask you about the commercial use products of the domestic alcoholic beverages business. It has recovered to just under 80% in the quarter under review and appears to be doing very well, outperforming the competition. I would like to ask a few additional questions about this.

You said that the bottled beer Akaboshi is doing particularly well. Can you give us some background on this? For example, is it expanding because of low coverage, as is the case with home beer? Or are you better capturing the current recovery in movement of people than other companies? Can you tell us a little more about the background behind the recovery of commercial sales over other companies compared to 2019?

Nose [A]: As you mentioned, the movement of the Sapporo Lager beer called Akaboshi is abnormal for us, and we are seeing some pretty good momentum. There are two factors.

One is the increase in the percentage of dealers, just as beer for home-use. There are many restaurants that provide keg beer of a competitor, but bottled beer of multiple brands. Not only in Tokyo, but also in Osaka, Hiroshima, and Fukuoka, our lager beer is gradually starting to be served in such restaurants. I am sorry, I do not know the number of increase, but it is certainly increasing.

Also, there are quite a few more restaurants now that provide multiple brands. The competition between other companies' beers and our Akaboshi in restaurants has also been a positive factor for our beer. I believe that these factors have combined to give our beer, especially bottled beer, a competitive advantage today.

Especially during the past three years, our commercial sales staff has not been able to work adequately. Since May, when the new COVID-19 changed from a category 2 to a category 5 virus, products have begun to rotate and our sales department has been quite active. This is a great opportunity to expand the channel for products that sell, including to commercial liquor stores, and we expect this trend to continue for the foreseeable future.

We assume that the degree of recovery in the commercial sector will not easily return to pre-COVID-19 levels. However, I believe that outperformance and strong trend can be expected for the lager beer Akaboshi in such circumstances.

Sumoge [Q]: Thank you very much. Regarding the potential, there are a lot of restaurant businesses that are thinning out their operations, and of course, I have a feeling that it will be difficult in practice to fully return to 2019 levels. How much do you expect the recovery to be? Also, has your company's efforts, rather than price differences, expanded sales volume, coverage, and areas? Or is there some impact of difference in the sales price per unit, and lower-price products are compensating?

Nose [A]: There is no sales price difference. Please understand that there is no price difference for bottled beer as we do not sell at any discount. We are also engaged in sales activities, and conversely, we are receiving an increasing number of requests from restaurants that they want to provide Akaboshi. Deployment has begun even where salespeople have not been able to reach. It is slowly starting to become that kind of product. I see that Akaboshi has begun to change dramatically over the past few years to become the product that our customers choose.

However, it is still difficult to see the bottled beer market itself moving in the direction of expansion. As you have just mentioned, there is a decrease in the number of restaurants, shortening of business hours, a shortage of people in the stores, and changes in the way people work. Also, the amount of bottled beer served at large parties is inevitably reduced. Because of these factors, it is not very likely that commercial use will recover significantly to pre-COVID-19 levels. However, we recognize that the condition of the brand is beginning to be quite good.

Sumoge [Q]: Thank you very much. Another point is about overseas alcoholic beverages. What was the profit progress of overseas alcoholic beverages in H1 of the year? In Q2, profits continued to decline, although the extent of the decline has narrowed. I understand that Q1 of the US business was difficult due to unfavorable weather. Q2 also had a fairly large margin of decline in profit. Please let me know how we should view this progress.

Nose [A]: Regarding overseas alcoholic beverages, H1 results were as you have seen. By country, the performance in Canada was strong and exceeded our plan at the beginning of the year. As for Stone Brewing, which we consolidated last year, our planning is to change the nature of this entity by consolidating the company that was originally loss-making, and by leveraging manufacturing and logistics synergies in the US.

New consolidation has added what was not there last year in January to June. Originally, we assumed that the deficit would be added. That is the main reason why core operating profit is JPY500 million worse than last year.

We are also spending capital investment to manufacture new SAPPORO PREMIUM BEER at Stone in the US from next year onward. We are also taking into account the hiring of some new people in the manufacturing and warehouse departments for this purpose. Major synergies will emerge in the next year or so. I hope you will first recognize that we have factored that in to some extent this year.

However, one of the factors that caused the deficit to grow significantly last year, especially in H2, was that the transportation cost of SAPPORO PREMIUM BEER brought in from outside the US was much higher than expected, which put negative pressure on profits. This year, its freight cost will be calmed down and will be almost in line with the budget. I see that as a major improvement. We are looking at progress based on Stone's current situation and expect that the overseas total will probably land as planned at the beginning of the year.

Sumoge [Q]: Thank you very much. I would like to check on the progress of initiatives on Stone. You mentioned that JPY200 million in synergies were generated in H1 of the year. I think it is important to be able to properly manufacture the SAPPORO PREMIUM brand in the next fiscal year and beyond. Does this seem to be a problem? Also, on page 16 of the slide, it says something like 1,600 major US chain stores have decided to take up the brand, which would lead to about several times the size of sales. Can you also give us an idea of the impact on sales and profits, if any?

Nose [A]: The impact of the production of SAPPORO PREMIUM BEER will be greater next year than this year. Next year, we will be able to start manufacturing as planned, although not 100%, and we recognize that synergies will be generated then.

The 1,600-store story relates to the Sapporo brand. We see it as quite impactful for us as well. Although Sapporo Beer has always been available in Japanese and Asian-affiliated stores, it was difficult to get into local American-affiliated chains. It was in the midst of these challenges that the Stone team moved in this time and acquired the contract with the store. We recognize that the brand has expanded from its original size of several hundred stores to 1,600 stores, making it a very large volume.

For products, it is important to increase the sales volume per item. To this end, it is significant to increase the handling agent rate. Especially in the US, the percentage of Sapporo Beer handled is still not high, so we believe that increasing the number in such a large market will be a positive thing. I also expect good things.

Sumoge [Q]: Will it be taken up next year, not this year? Will it have an impact next year?

Nose [A]: This will be deployed later in the fall.

Sumoge [Q]: Does it start to take effect around Q4 of this year?

Nose [A]: It depends on whether we can distribute to 1,600 stores at once. Please understand that this will be rolled out gradually, starting this fall.

Matsude [A]: Cost synergies in terms of manufacturing and logistics are significant. We are in the process of creating a structure that will allow us to do so in H2 of this year. Since we will not be able to start up vertically immediately, the positive financial impact is expected to be realized in H2 of the next fiscal year or later.

Sumoge [Q]: Thank you very much. Do you have a quantitative picture of the impact of expanding sales channels? Like the image of impact on sales and profit. The scale of sales currently being developed in this channel is also acceptable.

Nose [A]: Sorry, I don’t have the specific numbers on hand. We expect annual sales of SAPPORO PREMIUM in the US to be about 102% to 103% over the previous year. In particular, I think the most important thing is the growth of canned beer, which I believe will increase a little more. We will not know how much of an impact it will have on profits or volume until it is rolled out. I’m sorry.

Sumoge [Q]: Okay, I understand. It just means a big good story.

Nose [A]: Yes, I hope so.

Sumoge [M]: I understand. Thank you very much.

Moderator [M]: Thank you very much. We will now move on to the next question. Ms. Yoshida of JPMorgan Securities, please.

Yoshida [Q]: My name is Yoshida from JPMorgan Securities. Thank you. First, I would like to ask about the profitability of the restaurant business. I believe the core operating profit margin is 2.4% in the current year's plan, and the target for the mid-term plan is 5%. In H1 of the year, it is already 8.7%. This business will be very profitable in H2 of the year. I would like to know your thoughts on the future profitability of this business.

Matsude [A]: Thank you very much. In H1 of the year, the effects of structural reforms were steadily realized. Will the profit margin remain the same in H2 of the year and beyond? We are currently estimating slightly conservatively. As you know, there are increases in unit labor costs and recruitment costs due to labor shortages. We now expect that the profit margin will not be as high as in H1 of the year.

As for recovery from COVID-19, there have been significant changes this year. We also see the need to take a little time to analyze how the inbound effect will contribute.

Yoshida [Q]: Understood. Thank you very much. Although the profit margin will not be as high as in H1 of the year, 5% of the mid-term plan is higher than the profit margin for the current fiscal year. It looks like it might exceed 5%, but that is not the case, is that?

Matsude [A]: No, no, I hope you will look forward to that.

Yoshida [Q]: Understood. Thank you very much. The second point concerns the real estate business. The presentation material states that Yebisu Garden Place is as planned. Profit was again down in Q2, but you plan to achieve a profit on par with the previous year in H2 of the year. Looking at the real estate business as a whole, is the core operating profit plan in line with your plan?

Matsude [A]: The current situation is as you say. However, some of the equity investments described here may not work out as we had anticipated. In short, it is a business that executes investments while closely examining market conditions and projects. We think that we should expect a slight decrease in this regard.

However, the impact is not that great, and even if it were, it should be considered at the level of several hundred million yen.

Yoshida [Q]: Understood. The equity investment is making slow progress relative to the plan for this fiscal year, isn't it?

Matsude [A]: Yes, that's right.

Yoshida [M]: I understand. Thank you very much. That is all.

Moderator [M]: Thank you very much. We will now move on to the next question. Mr. Fujiwara of Nomura Securities, please.

Fujiwara [Q]: Thank you very much. I am Fujiwara of Nomura. First point, I would like to ask again about beer for commercial use. In Q2, your commercial use was at 80% level compared to 2019 and the market was at 70% level. Is this considered the post-COVID-19 new normal level? Or is there room for more recovery?

Nose [A]: I think this is a difficult question. I hear various comments from the market that the current recovery rate from 2019 before COVID-19 is in the range of 75% to a little less than 80%. Existing restaurant sales were also recovering in Lion's case, but overall, it will be difficult to recover because of the inability to secure sales in the evening hours due to the reduction of business hours.

From a long-term perspective, I believe keg beer for commercial use has been in a gradual decline since before COVID-19, and it appears to have dropped off all at once after taking quite a hit over the past four years. If it had fallen gradually for four years even without the pandemic, on the other hand, one could argue that the difference is only about a dozen percent. Although we feel that this 20% figure is significant, we also feel that the view of the figure of just under 80% will change depending on how the economy returns and changes in eating out styles in the future.

Fujiwara [Q]: The 75%-plus percentage you just mentioned is a market figure, right? Your company is outperforming it.

Nose [A]: This year, yes.

Fujiwara [Q]: As you said, I believe the gradual descent was hastened by COVID-19. If you don't return to the pre-COVID-19 level, for example, there are talks in the competitors' earnings presentations about optimizing the commercial beer sales organization.

I would like to know if there are any initiatives that your company is taking to maintain profitability in the commercial-use channel. Or, if there is something you need to do in the future, please let us know.

Nose [A]: In our case, we were already in the process of reorganizing our sales force before COVID-19 began. I can't explain it well, but in 2019 we actually switched to a system that looks at profitability of commercial-use products and products for home-use by channel, instead of looking at it by sales department in each area from Hokkaido to Kyushu.

Visualizing profitability in such a way, we saw a slight weakness in profitability and a significant decline in volume of the commercial-use products over the past four years. In this context, we had already been reforming the product structure, our structure itself, and the relationship with customers in many ways.

At the same time, we will be raising the price of bottled and keg beers in October, and I believe that this is one of the key points of our efforts to improve profitability.

The Company also recognized that the profitability of commercial-use products was slightly weaker than that of home-use products. In fact, it is starting to change quite a bit. We recognize that the fact that profit in H1 of the year has improved so much in relation to the increase in sales is the result of various efforts in the commercial-use business. I don't have much understanding of how other companies operate, but I am sure we have a lot of wisdom, and I believe it is possible to promote such activities.

Like keg beer, we don't discount when we roll out bottled beer, and it doesn't cost us anything. That is also a positive contribution. We will also continue to improve the product mix, etc. I feel that things are beginning to change dramatically. We have absolutely no intention of stopping this progress. That is my perception.

Fujiwara [Q]: I understand. Let me ask you another point of view. The cost increase is estimated to be JPY14 billion per year for the entire group. Could you please share with us any thoughts you may have regarding the next fiscal year?

Matsude [A]: I think it is a cost trend. Since the market trend had peaked in mid-2022 and has been declining, we initially expected the cost of goods sold to move in a positive direction in the next fiscal year and beyond. However, we believe that the situation is not very optimistic because the exchange rate is working in the opposite direction.

I don't think there are many factors that would make it go up more and more, but I don't see many factors that would make it go down either. Especially can materials. Also, how will barley be affected by the wheat market? As you know, depending on the situation in Russia and Ukraine, barley prices are also working in a negative direction at the moment.

Thus, while prices on a dollar basis may be on a downtrend, on a yen basis, we have yet to find room for them to fall. We would like to monitor the transition a little more. Only marine transportation costs have dropped significantly, and I think this downward phase will continue, but the impact is not very large.

Fujiwara [Q]: I understand. Various cost increases, such as labor costs, are also affecting suppliers. Therefore, suppliers must also raise their prices, including processing fees. Is the accumulation of such things a factor in costs not coming down much?

Matsude [A]: Yes, about processing fees. But as for can materials, I think most of it depends on the market price of aluminum. Certainly, there is a slight influence of processing fees.

Fujiwara [M]: Understood. Thank you very much.

Moderator [M]: Thank you very much. There is still time, but since there are no other questions, we will conclude the Q&A session.

Finally, Mr. Oga will say a few words.

Oga [M]: Thank you very much for listening so attentively. All companies are steadily making progress against their progress plans, and we hope to achieve this year's annual plan. We look forward to your continued support in many ways. Thank you very much.

Moderator [M]: That concludes the online meeting.

Thank you for your participation to the end of today's meeting. Thank you for your continued support.

[END]